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Realty Stock Review

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MLPs: Values Emerging From The Wreckage

As Stock Prices Sink, Values Rise Among Real Estate MLPs

One and two years ago, offerings of master limited partnerships (or MLPs) were all the rage on Wall Street. Eager investment bankers sold $1.3 bil. of the hot new stocks and talked glibly about how MLPs would supplant REITs as investors' favorite way to play real estate.

Today, that landscape has been recreated. Some major changes:

•MLPs have gone thru major Congressional scrutiny culminating in two IRS Code revisions that (a) grandfathered real estate MLPs (along with resource-oriented entities) from ever being taxed as corporations, and (b) tightened taxation of MLP distributions to diminish greatly the tax benefit attraction of MLPs.

•Trading standards were set by Congress, giving rise to a new term "publicly traded partnerships", or PTPs (we will continue to use the more familiar MLP tag).

•Stock prices have fallen, some dividends have been cut, and more cuts may be on the way as sponsor guarantees expire; sponsors of some MLPs initially offered these guarantees as sweeteners to induce investors to buy their paper.

All this has relegated most MLPs to investment backwaters.

•Most sell-side brokerage firms cover MLPs only infrequently, and then only the very largest MLPs command any Wall Street attention.

•Institutional interest is moribund because Congress severely restricted conditions under which pension funds and other tax exempt investors may buy MLP shares.

•Investment bankers haven't brought a major new MLP public in 18 months (since June 1987), because they see no big fees in flogging a dead horse.

•Some MLP sponsors have lost interest: Reporting to investors is often perfunctory and one **Prime Motor Inns L.P.** says its general partner hasn't filed its required Sept. 30 Form 10-Q with the S.E.C. yet and doesn't know when it will get around to filing. Too often the attitude has been, "We've got your money, don't bother us." Left in the dark, investors have to fight to generate enthusiasm for most MLPs.

If apathy equals value on Wall Street, then we think it's time to take a more constructive attitude toward MLPs. Falling stock prices generally expose more value for investors.

Short-run, MLP stocks are becoming "seasoned." Investors are starting to see how assets and managements perform, pricing normalized dividends ex sponsor guarantees and other soft financings, and generally becoming comfortable with the stocks and their trading patterns.

Longer-term, we see tremendous potential in a relatively small group of stocks now grandfathered into a special tax treatment so long as they remain in real estate. Three possibilities suggest themselves:

Declarations of independence: Just as many REITs have severed ties to their initial sponsors, it's quite possible that some MLPs over time will voluntarily strike out on their own and take a run at building a real business.

Takeover targets: Alternatively, value oriented investors might make takeover bids on some depressed MLPs, using their assets as the base to build larger public vehicles. Ousted Southmark Corp. executives have taken over management of **National Realty L.P.**, along with several Southmark-managed REITs (see page 2).

Mergers and conversions: One 1987 MLP offering, American Income Properties, merged into Dial REIT in December 1988 and three others (Angell Care Real Estate, Angeles Finance Partners, and Angeles Mortgage Partners) have or are about to convert into REIT format.

In this context, we think it's time to start positioning investments for the more rewarding events ahead. Inside we review 11 actively traded MLPs and plan reviewing two others in the Jan. 27 RSR. Picking investments depends intimately upon the genesis and track record of each MLP. We put them into four major group, as follows:

Off-balance sheet financing MLPs: We put four MLPs in this group, and three are reviewed this issue. All own either hotel or restaurant properties. All have done poorly in after-market trading, down an average 27%. One (**Burger King**) has cut payout and another (**LaQuinta**) likely will cut dividend when sponsor support is scheduled to end in Nov. 1989. **Advice for this group: Hold or avoid all except RED.** Here's a brief statistical profile

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MLPs Cont From P. 1

showing recent price, decline since initial offering, and current yield:

MLP	Price	% Chng.	Yld
Burger King LP	$14.50	-27.5%	12.4%
LaQuinta Motor LP	11.75	-41.3%	17.0
Prime Motor LP	16.38	-18.1	12.2
Red Lion LP	15.75	-21.3	13.0
Totals	**$58.38**	**-27.0%**	**13.4%**

Property flip MLPs: Four other MLPs are in this group, distinguished because investment bankers and/or big property owners seized upon MLPs as a way to sell fully priced property to the public. **Cal-Fed Income** departed from this by using newly raised public money to buy new properties. All use zero coupon financing or other financial gimmicks to boost yield to investors. These four have better after-market track records, down only 2.5%, mainly because properties are of better quality. And dividend yield is much lower, 11.1%, symptomatic of zero financing. **Advice: Some values if you're willing to overlook zero coupon financing.**

MLP	Price	% Chng.	Yld
CalFed Income	$ 7.25	-27.5%	13.8%
EQK Green Acre	12.50	+25.0	9.8
Equit. Rl.Est.	9.25	- 7.5	11.2
Shopco Laurel	10.00	0.0	10.8
Totals	$39.00	- 2.5%	11.1%

Rollup MLPs: Two MLPs resulted from the combination, or rollup, of many previously private partnerships. Both own diversified portfolios. One, **American Real Estate,** sponsored by Integrated Resources, has done quite well in the market, reflecting its net lease income stream and Integrated Resources sponsorship. The other, **National Realty**, has been hurt by affiliation with troubled **Southmark Corp.** and now may have to work thru the problem of being managed by deposed Southmark Chairman Gene Phillips. **Advice: Both are buys, ACP for income, NLP for very speculative recovery.**

MLP	Price	% Chng.	Yld
Amer. Rl.Est.	$15.50	-5.1%	12.9%
Natl. Realty	1.63	-64.9%	19.7%
Totals	$17.13	-18.4%	13.5%

Operating & development MLPs: This group is more diverse but seems to have greatest stock market potential. **Advice: Judge each MLP on its merits.** The group includes two new town builders and one residential real estate brokerage:

Newhall Land & Farming develops the new town of Valencia northwest of Los Angeles. Takeover speculation has pushed NHL prices to levels we consider unsustainable and advise selling.

Interstate General is building a new community south of Washington, D.C. **Advice: IGC is a better long-term bet and seems undervalued; buy long-term.**

Fine Homes Intl., third in this group, was roasted roundly when it came public because of suspicion that 73.5% owner Merrill Lynch was dumping a questionable service business on the public. Turns out FHI's cash flow continues to grow and Merrill is locked into a subordinated position until FHI achieves much higher cash flow. The arrangement in effect guarantees a 15% yield. **Advice: we say take the money and wait.** A statistical summary:

MLP	Price	% Chng.	Yld.
Fine Homes	$14.75	-18.1%	15.3%
Inter.Genl.	7.38	-18.1	8.1
Newhall Land	53.38	NA	2.3
Totals	$60.75	NA	6.7%

Southmark shakes managment

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+SM11387 #37+39

Southmark Corp. Chairman Gene Phillips and Vice Chairman William Friedman have resigned, replaced by Arthur G. Weiss, formerly assistant to Phillips. Weiss is also chairman of an Atlanta area S&L and has an accounting background. He is described as a straight arrow who will comply with regulatory practices in its S&L and insurance subsidiaries.

Weiss takes over a company whose cash flow has dried up. Worse, suspicion that shaky assets may have been swept under the rug by previous management left SM almost incapable of selling assets to ease its cash bind. The tipoff: a deal to sell its stake in insurance holding company Integon Co. collapsed in mid-December because insurance regulators turned down a deal nearly 100% leveraged with junk bonds.

REALTY STOCK REVIEW told you about these deep fissures in our Dec. 23 review of SM and advised selling all SM securities. This week's headlines were straight out of RSR three weeks earlier. In particular, we highlighted the problems when a $10 mil. SM loan to Phillips and Friedman came due Dec. 31. Subsequently, brokers and banks sold 741,000 of their SM shares to satisfy margin loans.

So have we changed investment stance? Not for the time being, which is to say we think serious aggressive investors will let the dust settle. From what we know, senior SM management is happy to be freed from the boardroom gridlock which had effectively stopped all major decisions for weeks, and which made it almost impossible to divest assets. New management deserves time to get back on track in selling assets, because SM still faces some major liquidity hurdles.

SM still needs time to realize its asset values. Keep in mind that amid all the turmoil, no one has questioned validity of SM's book value of $5.99/sh. Given time to realize that value, SM common may represent highly speculative value.

Our immediate concern is **National Realty L.P.**, which Phillips will wind up running as part of the severance package. On balance, we think venturesome investors can creep into NLP (see p. 6).

Phillips/Friedman stay as officers of six other REITs now managed by Southmark: **American Realty (ARB: NYSE), Consolidated Capital Realty (CCPLS: OTC), Consolidated Capital Income (CCITS: OTC), Consolidated Capital Special (CCSTS: OTC), Income Opportunity (IOT: ASE), and Johnstown-Consolidated Realty (JCT: NYSE).** Ultimately we would see these rolled into one or two large REITs.

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AMERICAN REAL ESTATE PARTNERS, L.P.

ACP, affiliated with Integrated Resources, Inc. (IRE:NYSE), is a roll-up of 13 American Property Investors limited partnerships originated by IRE. Substantially all of ACP's properties are net-leased to single tenants under long-term leases, creating stable and predictable gross revenues, but producing very little added value.

ACP has attempted to address this concern by repurchasing units and dramatizing the hidden values in its portfolio thru selective disposition of property. More recently ACP has stated a goal of spicing up its portfolio thru careful evolution. As of Nov. 14, 1988 ACP repurchased 122,200 units at an aggregate cost of approx. $1.881 mil. or $15.39/un. For the nine months ACP has realized net sale gains of approx. $3.7 mil. or $0.25/un.

Gut Issue: How fast can ACP move into multi-tenant properties? ACP is intent on creating a portfolio that has greater growth potential, most likely thru selling net leases (very much in demand today) and using proceeds to acquire multi-tenant properties that offer much greater growth potential via rental roll-over and escalation. Such properties carry commensurate risk of decline in rents as well and would require ACP to develop a staff of leasing professionals, the key to success in a multi-tenant strategy.

ACP's properties have $501 mil. in gross value and 41 mortgages on properties sold carried at $34 mil. At Dec. 31, 1988 properties were approx. 43% retail, 9% office, 9% industrial, and 39% other. They are located 29% Southeast, 29% Northeast, 21% South central, 11% Southwest, 8% North central and 2% Northwest.

Recently a controlling interest in IRE was acquired by ICH Corp., Kentucky insurance holding company. The effect on ACP should be minimal as ICH managment expressed its wish that ACP continue as usual. IRE holds an approx. 10% interest in ACP thru general partnership and limited partnership interests.

Advice: Units are a long-term buy for investors looking to shelter income. ACP cash flows have a high degree of certainty. Risk/return profile will increase as ACP acquires properties with higher growth potential. Units have fallen 20% from offer price, boosting return. Approx. 50% of ACP's $2.00 payout is non-taxable resulting in a 11.3% after-tax return for an investor in the 28% bracket. ACP shares are a high yielding alternative to municipal bonds with moderate potential for appreciation. Debt is almost all non-recourse mortgage with average rate of about 10.4% and payments at a 12.9% constant. (MJH).

ACP-NYSE RANK B Dec. years 14.79 mil. units.
Price: $15.50 Div. $2.00 Yld. 12.9% Price/cash flow: 7.55 times

Year	EPU	CFU	Div.	High	Low	Yld.Range
1987A	$1.66a	$1.72a	$1.50	$17.5	$12.5	8.5-12%
1988E	1.83b	2.00b	2.00	16.88	14.625	11.8-13.7
1989E	1.90	2.15	2.00	15.13	15.38	13.0-13.2

Sales gains: a-Incl. $0.05/un; b-Incl. $0.10/un. a-Began oper. 7/87.

Debt: $259.8 mil. Equity: $258.4 mil. or $17.47/un. Debt/equity: 1.0 times
Address: 666 Third Ave., New York, NY 10017. (212) 551-6000.

BURGER KING INVESTORS MASTER L.P.

One of the first publicly tradable (or master) limited partnerships (MLPs or PTPs) via a Feb. 1986 offering, BKP owns 128 restaurants leased to Burger King franchisees. The offering was not warmly received by investors because of concerns over property quality and sustainability of fast-food restaurant growth. Of the initial concerns, industry growth has become a serious issue. BKP sponsor, Burger King (subsidiary of Pillsbury: PSY—NYSE) was recently acquired along with PSY by Grand Metropolitan PLC, a British food and spirit conglomerate.

Gut Issue: Can Grand Metropolitan PLC's buyout of PSY reverse sluggish sales for Burger King? Burger King was viewed not long ago as a challenger to McDonalds for the lead in the burger battle but in recent years has become a perennial runner-up. Sales by BKP's underlying franchisees have flagged despite new menu items and marketing campaigns from Burger King Corp. Advertising, a critical factor in Burger King's meteoric rise, is blamed for its lackluster performance of late.

Grand Met has installed a new chairman and president at Burger King. This shake-up may create the force to get things moving again. Altho BKP is a separately traded entity, any improvment in sales will be felt directly as BKP's revenues are directly tied to dollar sales increases.

In 1987, its first full year of operation, BKP's revenues fell on a 2.8% sales decline on a comparable store basis. EPU declined 6% and CFU declined 5%, both on a comparative store basis. In the nine months of 1988, BKP's net income fell by 3% to $1.02 per unit on continued weak sales. The dividend was cut 4% to the current $1.80 annual rate because nine month payout fell short of operating cash flow by $0.12.

Advice: Until results of any new marketing strategies clarify, cautious investors would not be buyers. Demographics are not in the fast food industry's favor because with one restaurant for every 685 people, new customers have to be taken from competitors. With Grand Met at the helm, perhaps the right market strategy can be nailed down and Burger King will reemerge as the competitor it once was. More aggressive investors may buy. (MJH)

BKP-NYSE RANK C Dec. years 4.64 mil. units
Price: $14.50 Div.$1.80 Yld. 12.4% Price/cash flow: 7.85

Year	Op.EPU	CFU	Div.	High	Low	Yld.Range
1986	$1.21a	$1.56a	$1.58a	$24.38	$17.75	8.9- 6.5%
1987	1.37	1.83	1.88	21.00	12.25	15.3- 9.0
1988E	1.33	1.80	1.84	16.50	12.75	14.4-11.2
1989E	1.37	1.84	1.80	13.25	14.13	12.7-13.6
4-Yr.Growth		5.7%	4.4%	a-For 10 mon.; offered 2/86.		

Debt: none. Equity: $82.7 mil. ($17.83/un.)
Address: 200 S. Sixth St., St.610, Minneapolis, MN 55402. (612) 330-8345.

CAL FED INCOME PARTNERS L.P.

CFI invests in income-producing multi-family residential, commercial and industrial properties thru-out the U.S. via five operating partnerships. CFI aggressively sought expansion and is now fully invested at its target level of $200 mil. two years after it came public. CFI found rough going employing available funds at rates as attractive as the 10% received from loan participations with sponsor, Calif. Federal S&L.

Gut Issue: What happens to CFI's dividend when Calif. Federal calls-in its money? CFI's dividend has no guaranteed suport level. Yield has been maintained by deferring payments to the sponsor and accreting interest expenses on zero coupon financing. For instance, CFI's nine month cash flow of $0.47per unit fell well short of payout of $0.75 per unit. And 55% of the $0.47/un. cash flow came from accruing interest on zero coupon and start-up loans.

Including Dec. qtr. fundings to fund $30 mil. new property purchases, CFI owes its sponsor approx. $98-$99 mil., including $18 mil. zero coupons; $13.75 mil. in start-up financing on which interest is accrued; $6.6 mil. accrued interest; and a prime/combination credit line for approx. $61 mil.

Most of CFI's properties are doing well with the exception of The Hacienda Business Park located in Pleasanton, CA at which CFI must find a tenant to replace space vacated by AT&T that will lose approx. $0.01-02/un. per year untill filled. CFI says its market studies show that competitive conditions will make it difficult to match the previous rents. CFI is now looking to maximize the tax deductibility of its portfolio and minimize operating expenses, yet cash flow remains insufficient to support current payout and it appears that this will not soon change.

At year-end, CFI acquired two Sacramento, Calif. office buildings (167,000 sq.ft., 99% occupied) at approx. 8.5-9% cap. rates; and a Florida property for $10 mil. This gives CFI five apartment complexes with 1,217 units at $73.8 mil.; four office building with 341,100 SF at $45.4 mil. cost; and five shopping centers with 740,000 SF costing $77.3 mil.

Advice: Avoid units on potential for dividend cut. Substantially all of CFI's distribution for 1988 is considered taxable portfolio income. CFI has passive losses of up to $0.40/sh. that can not be used because it does not have offsetting passive income and with the sale of its remaining mortgage participations this feature will take less significance. (MJH)

CFI:NYSE RANK C Dec. years 12.87 mil. un.
Price: $7.25 Div. $1.00 Yld. 13.8% Price/cash flow: 11.2 times.

Year	EPS	CFS	Div.	High	Low	Yld.Range
1986A	$0.03a	$0.09a	$0.08	$10.88	$9.88	NM %
1987A	0.19	0.84	1.00	10.75	6.00	16.7-9.3
1988E	d.14	0.65	1.00	8.25	6.13	16.3-12.1
1989E	NE	0.80	0.80	6.63	7.25	12.1-11.0

a-Began oper. Sept. 22.

Debt: $100 mil. Partners capital: $103 mil. or $8.06/un. Debt/Part. cap.: 0.97 times.
Address: 5670 Wilshire Blvd., Suite 940 Los Angeles, Cal. 90036. Phone: 213/932-4196.

EQUITABLE REAL ESTATE SHOPPING CENTERS L.P.

EQM is a master limited partnership that owns two regional shopping malls: Brookdale, a 990,000 SF mall northwest of Minneapolis; and Northvale, a 1.65 mil. SF mall in Southfield, Mich., a Detroit suburb.

Gut Issue: EQM is running flat. For the nine months ended September, sales at Northland increased just 2% to $131.70/SF while Brookdale's rose just 1.5% to $136.80/SF. Management estimates that 1988 year-end sales/SF will come in at $240.50 at Northland, up slightly, and expect about the same for 1989. At Brookdale, management expects 1988 sales of $273.50/SF, up 2% and a 5% increase for 1989. Construction costs for a small addition — around 19,000 SF for two full service restaurants — at Brookdale helped push EQM's operating cash flow down 2% to $0.75/unit.

Nevertheless, EQM is ahead of initial projections due to strong 1987 sales. The $1.04 annual distribution is 4% more than anticipated when the partnership went public in 1986. Despite the sales weakness we expect a small quarterly distribution increase around half a cent by the June quarter.

A new department store tenant leasing space in both malls has been sold. MainStreet, a discount clothing and housewares chain, has been sold to privately-held Kohl's Department Stores as part of the break-up of Federated Department Stores. If the MainStreets are converted, Kohl's dowdy merchandising may make the new stores somewhat less of a draw than their jazzy predecessors. But any negative effects probably won't be substantial.

One red flag: EQM financed its malls with zero-coupon notes worth $40.9 mil carrying a 10.2% coupon rate. Since the accrued interest compounds, EQM will have to cough up $95.2 mil. when the note matures in 1995. EQM's game plan is to sell the properties before the maturity date. Book equity stands at $7.98/unit. The properties' current $145 mil. combined appraisal boosts the units' actual value to $9.56. Will the malls appreciate 4% annually to both cover the zero and preserve the current equity? The problem is that a couple of bad years could eat away a substantial portion of that equity. Further, regional malls have been fetching record prices in the last couple of years so slow cash flow could make appreciation hard to come by.

Advice: We renew our buy recommendation on EQM as a yield play. If everything goes smoothly the profits in a liquidation could be substantial. But we advise long-term holders to consider selling out well in advance of the maturity of the zeros. EQM should only be held along with other mall MLPs and REITs to diversify regional risk. (JMH)

EQM-NYSE Rank: NR Dec. years 10.7 mil. units
Price: $9.13 Div. $1.04 Yield: 11.4%

Year	EPS	CFS	Div.	High	Low	Yld.Range
1987	$0.32	$1.11	$1.00	$10.88	$6.88	9-15
1988E	0.34	1.02	1.00	9.68	7.38	11-14
1989E	(0.14)	1.03	1.07			

Debt: $48.7 mil. Equity: $85.4 mil. Debt/equity ratio: 0.6
Address: 31 W. 52 St. NY, NY 10019 212-298-4500

FINE HOMES INTERNATIONAL L.P.

FHI combines the residential real estate brokerage, mortgage banking and relocation services formerly owned by Merrill Lynch. FHI came public in June 1987 by selling 7.8 mil. preference limited partnership units at $18 each. Merrill, the seller, owns 73.5% with 21.6 mil. subordinated units.

Gut Issue: Is FHI's 15% yield too good to be true or could it be cut? We think a cut is extremely remote given Merrill's restrictions on undercutting payout thru rapid conversion. FHI came public intending to pay $2.25/yr. to preference unit holders. FHI's distribution is not guaranteed by Merrill Lynch or anyone else. But Merrill cannot convert its 21.6 mil. subordinated units into higher paying preferred until cash flow covers 125% of the $2.25 payout (i.e., about $2.81/unit).

What's happening to cash flow to support dividends? FHI's cash flow of $1.92/un. in the 9 mon. thru Sept. was composed of $1.39/unit EPS and $0.53/un. depreciation. The seasonally weak Dec. qtr. may be only breakeven or a bit better, bringing 1988 cash flow to about $1.95-$2.00/un., or about 86%-88% of fully converted payout. Unless soaring interest rates kill the housing resale market this year, FHI should come fairly close to covering fully converted payout in 1989. Upshot: With capitalization underweighted with preference shares and Merrill unable to convert until cash flow hurdles are met with a safety margin, yield looks secure.

But there's more: FHI thus represents a nearly pure play on house price inflation. Since 1984, unit volume of houses sold has risen 60% (to about 144,000 home sales in 1988) and average house prices have risen nearly 50% (to about $162,500). That means dollar value of home closings (on which FHI bases its brokerage commissions) have risen about 23% annually the past five years. We doubt that trend will change much the next 2-3 years, although interest rates could hurt short-term.

FHI remains one of the nation's largest residential real estate brokers with 15,300 sales associates in 430 offices in 19 states under the Merrill Lynch Realty name. Calif. and Southeastern sales are currently strong while the Northeast is weak. FHI just bought LandVest Inc., Boston and New York-based broker for homes averaging $1.5 mil., putting FHI into luxury homes.

FHI's other two operations are doing well. Third-party relocation management services, in which FHI acts on behalf of corporate clients to help shuffle employees, grew about 19% in 1988. Mortgage banking, a big loser in 1987, turned moderately profitable in 1988 after restructuring. FHI will originate loans to GMAC Mortgage Corp., which assumes all interest rate risks.

Advice: While there are no hard assets here (book value is only $6.44/un.), FHI's unique structure makes units a high-yield play on continued house price inflation. Buy for income. (KDC)

FHI-NYSE Rank C Dec. years 29.4 mil. units
Price: $14.88 Div.$2.25 Yld. 15.1% Price/CFS: 7.4

	Op.EPU	Op.CFU	Div.	High	Low	Yield
1987b	$(0.55)	$(0.20)	$1.1374a	$19.13	$ 9.75	12-6%
1988E	1.45	2.00	2.25a	16.00	11.00	14-20
1989E	1.50	2.25	2.25a			

a-Yield on 7.8 mil. preferred units. b-From 6/25/87.

Debt: $365 mil.; Equity $198.3 mil. equals $6.44/LP unit. Debt/equity: 1.8.
Address: 10 Stamford Forum, Stamford, CT 06901. Phone (203) 356-1400.

INTERSTATE GENERAL CO. L.P.

Organized 30 years ago, IGC operates in four related real estate areas: community development, homebuilding, development and ownership of apartments, and property management. IGC came public Feb. 1987 by selling 2.0 mil. units at $9. The big play is land appreciation at IGC's 6,000-acre St. Charles, Md. community.

Gut Issue: Can shorter-term oriented investors appreciate IGC's long-term growth potential? IGC's allure clearly is long-term. It owns and is developing 6,000 ac. with a projected 20,000 remaining lots in the planned community of St. Charles, Md., 23 mi. southeast of Washington, D.C. on the frontier of new development pushing south from Washington. The area is urbanizing rapidly and shopping center tycoon Melvin Simon & Assoc. picked St. Charles for a 1.1 mil. regional shopping center, to open in 1989 and anchored by The Hecht Co., Montgomery Ward, Sears and J.C. Penney.

IGC bought the St. Charles community for 25-cents on the dollar after its original sponsors had poured $50 mil. of HUD money into land improvements before going bust. Now St. Charles has 29,000 residents in nearly 7,000 occupied homes. New home building runs about 500-600 units a year, about half built by IGC itself (estimated 275 unit sales in 1988) and half in lot sales to other builders (Pulte Homes is biggest). Lot sales are IGC's frosting, and IGC is now selling lots at $36,000 per building site (up 24% in the last year), and generating 43% gross margins on residential and commercial lots.

What's St. Charles worth? At the end of 1987, appraisers valued the land at $36.8 mil. or $3.72/unit over IGC's $3.29/un. book value at historic cost. Since land values likely grew about 10%-15% in 1988, current value is $7.40-$7.70/unit based solely on land appreciation at St. Charles. EPS probably will be about $1.20-$1.25 in 1988, including $0.40 gain on sale of a CATV system. IGC pays $0.60 and this could be boosted a bit because IGC must pay 55% of EPS to holders. Thus IGC represents good value.

But here are some other goodies inside IGC:
•The CATV sale will generate $0.06/un. yearly for 10-12 yrs.;
•IGC has finally begun long-delayed negotiations to acquire liquidating San Juan Racing Assn. which could add up to 1,000 prime acres in San Juan, P.R. to IGC's holdings;
•IGC manages more than 7,800 apartment units, of which 6,399 DU are HUD-assisted apartments in which IGC's back-end equity interest was appraised at $3.45/un. over cost when IGC went public in 1987. This item alone brings current value to about $10.85-$11/unit.
•It owns 140 ac. suitable for 960 townhouses in nearby Montclair, Va. planned community.

Advice: IGC's strong land position, moderate leverage, and apartment building and management experience reduce risk. We see IGC as ideally positioned in the strong Washington D.C. growth market, now knocking on IGC's door. Stock is a long term buy. (KDC)

IGC-ASE Rank B Dec. years 9.90 mil. units
Price: $7.38 Div. $0.60 Yld. 8.1% Price/EPS: 6.2

	Op.EPU	Div.	High	Low	Yield
1987	$1.05	$0.52	$13.50	$4.50	12-4%
1988E	1.20	0.60	8.13	5.63	11-7
1989E	1.35	0.70			

Debt: $38.1 mil.; Equity: $32.6 mil. at cost ($3.29/un.). Debt/equity ratio: 1.2 at cost. Pres. James Wilson owns 41.3% of units.
Address: 222 Smallwood Vil. Ctr., St. Charles, Md. 20601. (301) 843-8600.

LA QUINTA MOTOR INNS L.P.

LQP is a sagging master limited partnership that owns 31 motels managed by the sponsor, La Quinta Motor Inns, Inc. (LQM:NYSE $14). LQP's 3,681 rooms are an average of 10 years old. The partnership came public in 1986 at $20/unit, but cash flow problems have pushed the price down to $12.

Gut Issue: Can LQP sustain its distribution after the sponsor's guarantee expires in October? That's extremely unlikely considering LQP's weakening finances. LQM guarantees the $2/unit annual payout, but only through October 1989. So far, cash flow has fallen far short of meeting the payout without the sponsor's help. Nine-month CFU ended September 1988 reached just $.0.71/unit, down from $1.09/unit in 1987.

LQP's expenses are substantially higher than initially planned. Capital expenditure reserves were increased to 5% of revenues from 3% and marketing fees were boosted chain-wide to 2% of revenues from 1%. We expect LQM will have to kick in more than $4 mil. to meet its $2/unit distribution guarantee for 1988, up from $3 mil. in 1987. Close to 100% of 1988 and 1989 distributions will be tax sheltered.

LQP's concentration in Texas (30% of the partnership's rooms) and stiff competition elsewhere has kept room rates at a low - and flat - $36.23 for the nine months. Average nine-month occupancy increased 2.4 points to 69.7%. We expect the average 1989 room rate to increase to $39.50 and occupancy rise to around 72%. However, that won't bring LQP even close to supporting the current distribution although the partnership may borrow money to moderate the payout cut. Look for a 30-35% distribution cut after LQM's support is withdrawn. We believe that after LQP stabilizes the market will price its units to yield at least 12%, or around $10.80-$11.66. A 14% yield demand could push the unit price to $9.25.

However, LQP is stirring institutional interest. Blocks around 5% each of LQP' outstanding units are held by Eagle Fund, managed by Arnhold & S. Bleichroeder Inc., Cohen & Steers Management and Integrated Resources. What do they see? A stock that is trading $8 less than the $20 initial offering price. Motel rooms in a strong chain priced by the market at about 80% of replacement cost. Concentration in Texas could further make LQP an armadillo real estate play.

Recommendation: Avoid. We first put a sell recommendation on LQP in July when its units were priced at $14.25. Even at $12, we're not yet tempted despite the institutional interest. If the units fall closer to $10, it will be time to take another look. (JMH)

LQP-NYSE Rank C Dec. years 3.975 mil. units
Price: $12 Div. $2 Yield 16.6%

	Op. EPS	CFS	Dist.	High	Low	Yield
1986a	$(.09)	$.11	$.84	$19.88	$17.75	2-2%
1987	(.01)	1.56	2.00	19.13	10.75	10-19
1988E			2.00	15.50	10.25	13-20
1989E			1.83			

Debt: $69.5 mil. Equity: $57.5 Debt/equity ratio: 1.2
Address: 10010 San Pedro Ave. San Antonio, TX. 78216 512-366-6030

NATIONAL REALTY L.P.

NLP is the survivor of the controversial October, 1987 roll-up of 39 limited partnerships controlled by Southmark Corp. Although SM estimated NLP units would be worth $10 each following the roll-up, trading settled in the $3 range and has since broken to around $1.63. With the units so cheap, we believe NLP could be an unusual value.

Gut Issue: What will be the effect of the shakeup of NLP's general partner? Under SM's severence agreement with Gene Phillips and William Friedman (see p. 2) NLP will now be operated solely by the two former execs. SM will convert its stake in the general partner, Southmark Asset Management L.P., into an undisclosed number of NLP limited partnership units. The shake-up is important because NLP suffers from a malaise common among SM's publicly-traded affiliates: the "Southmark Discount." The markets are so nervous about SM's cash problems and tangled web of insider dealings that the Southmark connection poisons the stock price of its affiliates.

SM's liqidity should no longer be a factor. But the discount may even become more severe because the two men pulling the strings on SM's insider dealings with NLP now have sole control of its operations.

For a glaring example of insider dealings, witness NLP's tender offer (now cancelled) for up to 20% each of Consolidated Capital Income Trust and Consolidated Capital Special Trust, two REITs advised by SM. The offer was made in tandem with American Realty Trust, another SM-advised REIT. Sure the $15 mil. or so cash for NLP's end of the deal was going to be supplied by SM, but only through a pre-established credit line. That line was purportedly designed to fund NLP's operations, not help SM wrest tighter control of management fee sources. The ConCap offers were aimed at helping SM, not NLP. As a result of a history of such dealings, we expect Friedman and Phillips' deal will hang over NLP shares for many months.

How soured are NLP investors? A letter sent by one unitholder (and an RSR subscriber) to a NLP general partner gives you a taste: "Run National L.P. like an ordinary REIT," the investor wrote. "Collect the rents, effect necessary maintenance and find tenants to fill vacancies. *Don't* borrow more money, increase leverage, buy new properties, make tenders for junk REITs affiliated with Southmark, reverse split the stock or any other aggressive thing that you obviously don't know how to do. National appears to have some pretty decent properties. Please don't do to it what you did to Southmark!"

But you can't blame the Southmark Discount for all of NLP's price decline. The partnership has plenty of problems of its own, notably on the cash flow statement. Although NLP's net loss decreased 18% (not counting the $0.36 charge for roll-up costs)

to $0.14/unit, operating cash flow for the nine months ended Sept. 30 fell 33% to $0.14/unit. Annualized, that's not enough to cover the stated $0.32/unit distribution and the market is pricing the units in anticipation of a dividend reduction to roughly $0.25/unit.

One way NLP has been bringing cash in the door is through accelerated property refinancings. NLP borrowed $42 mil. net during the first nine months of 1988 without buying new rental properties, while spending $26.8 mil. on property improvements. NLP expects to net another $30-$50 mil. in the next six months through property sales and continued refinancings. Debt stands at 1.88 times equity plus accumulated depreciation, higher leverage than we like to see but not outrageous. Part of those borrowings helped support the distributions at bit.

But at $1.63/unit, we believe the market is overlooking the asset value behind NLP's units. The partnership is now trading at a 62% discount to its $4.26/unit equity plus accumulated depreciation. And that's based on the original cost of the properties, not accounting for any appreciation. About 72% of NLP's portfolio is apartments. Although when you see "Southmark" you think "Texas", 75% of the apartments are located outside the Oil Patch in stronger Midwest and Sun Belt markets. The remaining real estate is split between offices and retail space.

At the current price, the market is putting a huge discount on NLP's properties. Apartments are being valued at $17,350 per dwelling unit including $14,400 in allocated debt; office space at $48.65/SF, after $40.45/SF debt; and retail space at $50.73/SF, including $42/SF debt. We put NLP's rock-bottom value at $2.12-$2.35/unit. That figure is derived by capitalizing its $9.5 mil. annual rate cash flow at 9-10%, as financed and before administrative costs. If NLP were to liquidate, the properties would be sold on 1989 estimates. So there probably is a 5-6% growth factor missing in these estimates. However valued, NLP appear undervalued at today's prices — the Southmark Discount.

NLP's declaration of a 1-for-5 reverse split didn't win the partnership any favor in the market. Instead of trading up on the news, as is usually the case, NLP shares traded down 3/8.

Advice: Buy for speculative accounts. We believe NLP's asset value will eventually attract attention from raiders. Phillips and Friedman may themselves have that in mind. If you already own NLP, consider averaging down. (JMH).

NLP-ASE Rank C Dec. years 44.6 mil. units
Price: $1.63 Div. $0.32 Yield: 19.6%

	Op. EPS	CFS	Div.	High	Low	Yield
1987	($0.67)	($0.41)	0.18	$4.88	$3.00	10-16%
1988E	(0.20)	0.18	0.32	$4.00	$2.13	8-15
1989E	(0.17)	0.20	0.32			

Debt: $357 mil. Equity (plus depreciation):$190.1 mil. Debt/equity ratio: 1.88
Address: 15770 N. Dallas Parkway Dallas, Tex. 75248, 214-960-9383

NEWHALL LAND & FARMING

NHL is a master limited partnership developing a 37,000-acre community 35 miles northwest of Los Angeles. Much of the ranch land on which the Newhall family has built the city of Valencia was accumulated 100 years ago. About a third of the land is currently ripe for development.

Gut Issue: Will the takeover pressure supporting NHL's price bear out? NHL units have been ratcheting upward in recent weeks reaching as high as $56.75 from $46 in November. Although there was some pretty interesting takeover talk last May, no bids have emerged and no serious suitors are immediately apparent. It appears that the "greater fool" theory is in play here.

But various value estimates have apparently convinced traders NHL will be in play shortly. A unitholder suit over NHL's takeover defense strategy revealed an appraisal by NHL's investment banker, Morgan Stanley, estimating the LP's value at $70-$92/unit. A company director who independently commissioned an appraisal was given an estimate of $58-$63/unit. And in Barron's, two money managers breathlessly declared they believe NHL's breakup value may exceed $100/unit.

We hesitate accepting as gospel appraised break-up values commissioned as part of a takeover defense plan ($70-$92/unit) or by a director ($58-$63) who might have been more interested in selling out than taking over. (We won't even discuss a current value of $100/unit.) Certainly, NHL is worth the middle range of those valuations. But that assumes continuation of management's gradual, cautious development plan. But we don't believe the massive land auction that would follow any leveraged takeover would command the kind of prices needed to justify the lofty estimates fueling the market today. Interest costs on even a moderately leveraged deal would balloon far past NHL's $63 mil. operating cash flow.

We're more comfortable with management's MAI appraisals. At the beginning of 1988, that valuation was around $50/unit. We expect that a new appraisal now being prepared will show an increase of around 15-20%, less than the 30% annual increases NHL's property has seen in the past. Despite the Newhall family's clout with local zoning officials, no-growth advocates are gaining the upper hand around Valencia as they are in the rest of California.

Advice: Sell. NHL clearly has wonderful property, but we don't believe the price of a takeover will exceed the current price enough to justify the risk of a collapse. If you've been in NHL since before last spring, you've already made a handsome profit. If the price declines 20% that might be a time to buy back in. (JMH)

RED LION INNS L.P.

RED is a two-year-old master limited partnership owning 10 mid-priced executive hotels. The sponsor, Red Lion Inns Corp., was taken private by Kohlberg Kravis Roberts & Co. in 1985 and operates a total of 53 hotels in major Western markets.

Gut Issue: It appears the struggling Colorado Springs property has turned around. The 300-room hotel was RED's biggest dog, sucking a substantial amount of cash out of the LP's bottom line during 1987. While the figures for 1988 were still being crunched, it appeared Colorado Springs will end up in the black. The opening of a sales office in Denver helped boost occupancy to 65% for the year vs. 50% in 1987. The two-year-old hotel continues to lag behind initial projections. RED's Omaha inn has slipped due to last summer's drought and uncertainty over now-scuttled plans by Con Agra, a major local employer, to move its headquarters.

The Red Lion's new emphasis on marketing has boosted the LP's hotels. Nine-month room rates increased 5.1% to $58.71 while occupancy jumped 4.5 points to 70.3%. Nine-month operating cash flow increased 44% to $1.38/unit with about 11% of the increase due to unit repurchases (350,000 units bought back in 1988.) The Red Lion chain has boosted marketing a bit but is limiting advertising to the Wall Street Journal, USA Today and in-flight magazines.

Because an incentive management fee is subordinated to distributions, RED's cash flow just covered payout. However, a seasonally slow fourth quarter will likely force the LP to dip into a zero-interest credit line from the sponsor to cover distributions. Those distributions were 100% tax-sheltered in 1988 and are expected to be 90% sheltered in 1989.

Advice: At a 13%-plus yield, RED is a buy. With its biggest problem on the way to resolution, we believe RED is a pretty solid yield play. Distributions could be reduced slightly in Dec. 1990 the first weak occupancy quarter after the sponsor's credit line expires in April 1990. Don't expect a lot of price appreciation until interest rates go down substantially. Speaking of interest rates, although RED is somewhat highly leveraged, $105 mil. mortgage debt is fixed at 9% so recent market rate increases haven't caused any damage. (JMH)

RED-ASE Rank: NR Dec. years 4.6 mil. units
Price: $15.25 Div: $2.05 Yield: 13.4%

	Op. EPS	CFS	Dist.	High	Low	Yield
1987a	($0.09)	$0.94	$2.05	$19.75	$11.00	10-18
1988E	(0.25)	$	$2.05	$16.88	$13.25	12-15
1989E		$2.05				

Debt $105.9 mil, Equity $69.3 mil. Debt/equity ratio: 1.5
Address: 4001 Main St. Vancouver, Wash. 98663 206-696-0001

SHOPCO LAUREL CENTRE L.P.

LSC is a single-asset master limited partnership that owns Laurel Centre, a 660,500 SF regional mall in Laurel, Md. near Washington D.C. Laurel Centre is anchored by J.C. Penney, Hecht and Wards department store. The nine-year-old mall is built on a 35.5 -acre site. A unit of Shearson Lehman Hutton Inc. serves as general partner. The mall is financed with a $22.5 mil. zero coupon loan on which LSC pays no interest until maturity in 1998 or sale of the property.

Gut Issue: LSC's pre-Christmas sales rose smartly, but cash flow isn't covering distributions. Holiday shopping numbers aren't yet available, but sales through October rose 9% to $220/SF. But disruption and vacancies caused by construction of a food court helped keep nine-month rental income flat at $1.29/unit. The food court, opened in November at a cost around $1 mil., has space for a dozen fast-food restaurants and should be a nice amenity.

But increased operating expenses pushed cash flow available for distribution down to $0.76/unit, shy of the $0.81 nine-month payout. LSC will tap a cash reserve established in the initial public offering to support distributions. Almost 100% of 1988 distributions were tax sheltered.

LSC's zero-coupon debt is potentially hazardous. LSC financed the purchase of the mall with a $22.5 million zero note accreting at 10.2% and maturing in 1998. The note pays off at $57.8 mil., about 80% of the property's recent appraised value of $72.5 mil. LSC's equity is posted at $7.93/unit. At the mall's appraised value, the shares would be worth $9.98.

We're always skittish over zeros. As the accreting interest compounds, it threatens to chew up the partnership's equity in the mall. A couple of poor years or softening of interest in regional malls could hurt. LSC owns 244,100 SF of mall space and the 137,000 SF Penney store. The other two anchors own their stores.

Advice: Buy for yield. We remain high on regional malls and see LSC as one of the few opportunities for small investors to play. Although the price has increased slightly since we recommended LSC in August, the 10.8% yield is attractive enough to invest. Make sure that LSC is only a portion of a regionally diversified real estate portfolio. In the long run, you might consider selling in advance of the maturity date on the zero coupon loan to reduce the risk the mall's equity could deteriorate. (JMH)

LSC-ASE Rank: NR Dec. years 4.66 mil. units
Price: $10 Div. $1.08 Yield 10.8%

	Op. EPS	CFS	Dist.	High	Low	Yield
1987a	0.16	0.69	0.72	10.13	5.75	11-20
1988E	0.05	1.01	1.08	10.25	7.50	11-14
1989E	(0.04)	1.06	1.10			

Debt $26 mil. Equity $37 mil. or $7.93/unit Debt/equity ratio:: 0.7
Address: 31 W. 52 St., NY, NY 10019 212-298-4500